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TAGS: EFIN ECON RS

SUBJECT: DEPUTY PRIME MINISTER KUDRIN PERSONALLY VOUCHES  
FOR DEPUTY FINANCE MINISTER STORCHAK

REF: A. MOSCOW 5459

1B. MOSCOW 5450

Classified By: Ambassador William J. Burns, Reasons 1.4 (b/d).

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Summary  
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11. (C) On November 26, Deputy Prime Minister and Finance Minister Aleksey Kudrin put his personal and professional reputation on the line in defense of Deputy Finance Minister Sergey Storchak who was arrested November 15 on charges of preparing to and attempting to commit fraud (reflets). Kudrin filed a petition with the court in which he pledged to guarantee Storchak's cooperation and appearance for all proceedings related to the investigation and court hearings on the charges. Storchak remains incarcerated, however. Investigative Committee officials had announced the formal charges against Storchak and two businessmen on November 23 but did not release details of the allegations. Speculation in the press is that Storchak, General Director of Sodexim Ltd. Viktor Zakharov, and Chairman of the Board of Inter-regional Investment Bank (IIB) Vadim Volkov are accused of colluding to divert more than USD 43 million of budget resources. Finance Ministry officials have said publicly that the budget legally allowed funds to be released to Sodexim in connection with Soviet-era debt relief for Algeria. End Summary.

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Kudrin Launches Defense of Storchak  
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12. (C) Advisors close to Deputy Prime Minister and Finance Minister Aleksey Kudrin told us that on November 26 Kudrin formally filed a petition seeking the release of Deputy Finance Minister Sergey Storchak from custody. Kudrin had previously offered public comments in support of Storchak, to the point of excluding the possibility that one of his deputies could have single-handedly schemed to defraud the government in this way.

13. (C) The petition Kudrin filed, however, went well beyond words to demonstrate confidence in Storchak, according to Kim Istyan, Vice President of UralSib Bank. Since Kudrin vouched for Storchak in writing, providing his personal guarantee that Storchak was not a flight risk and would cooperate fully with the investigation and all related court proceedings, "Kudrin equated Storchak's integrity with his own." Istyan

said he was uncertain how successful Kudrin's petition would be. He noted that Federal Narcotics Control Service Director Viktor Cherkesov also protested the arrest of one of his subordinates, General Aleksandr Bulbov, but was unsuccessful in securing Bulbov's release from custody.

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The Charges and the Theories  
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¶4. (C) Investigative Committee officials did not make public many details about the charges against Storchak, General Director of Sodexim Ltd. Viktor Zakharov, and Chairman of the Board of Inter-regional Investment Bank (IIB) Vadim Volkov. Public statements have been primarily limited to the allegation that the accused organized "an attempt to embezzle an especially large volume of government budget funds." Defense attorneys for the three men clarified that the charges were brought under Articles 30 and 159 of the Russian Criminal Code. Article 30 provides punishment for the preparation and/or attempt to commit a crime and Article 159 covers large-scale fraud and embezzlement (reftels).

¶5. (C) The dominant speculation about the substance of the charges centers on the complex write-down of Algeria's Soviet-era debt relief. In 1996, Sodexim purchased a portion of the Soviet-era debt that Algeria still owed and was paying to the recently independent Russian Federation. Under this structure, Sodexim negotiated a series of trade deals whereby Algeria's debt was reduced as the country purchased goods and services that Sodexim arranged. In 2006, however, the GOR forgave Algeria's remaining debt. Sodexim appealed to the GOR for compensation of the remaining debt, which, according to the press, totaled USD 26 million. The GOR agreed to pay Sodexim and the Finance Ministry was in the process of arranging the payment at the time Storchak, Zakharov, and

Volkov were arrested. (Note: Sodexim's primary bank accounts were with IIB, hence Volkov's arrest. End Note.)

¶6. (C) Investigative Committee officials have argued that the means of compensating Sodexim were illegal and amounted to defrauding the government. Finance Ministry officials maintained that the budget did allocate, but had not yet disbursed, funds for Sodexim. Kudrin observed publicly that this kind of budget decision must have interagency approval and could not have been orchestrated without the government's knowledge.

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Comment  
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¶7. (C) The main theory being promulgated in the press and by many observers is that Storchak's arrest is a back-door way to challenge Kudrin and put a check on his authority. Kudrin's personal affidavit of Storchak's integrity might not only be a sign of his faith in his deputy but as a counter-attack to this challenge. By putting his own reputation on the line, Kudrin is sending a message that he will not be easily undermined. End Comment.

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